

## **Targeted Area of Concern**

### **Schedule E, Supplemental Income and Loss**

As a paid tax return preparer, you must take all necessary steps to file accurate federal individual income tax returns on behalf of your clients. These steps include reviewing the applicable tax law, and establishing the relevancy and reasonableness of income, credits, expenses, and deductions to be reported on the return. In general, a tax return preparer may rely in good faith without verification upon information furnished by the client. You may not, however, ignore the implications of information furnished to, or actually known by you, and you must make reasonable inquiries if the information as furnished appears to be incorrect, inconsistent with an important fact or another factual assumption, or incomplete. Additionally, a tax return preparer must make appropriate inquiries to determine the existence of facts and circumstances required as a condition for claiming a deduction or credit.

A review of the tax year 2010 individual income tax returns you prepared reveals that these returns contain a high percentage of attributes of returns typically found to have significant errors on Schedule E, Supplemental Income and Loss.

To prepare accurate Schedules E, you should ask your clients sufficient questions to determine that the expenses claimed are correct. Taxpayers may not fully understand the tax laws and may incorrectly believe they are entitled to claim deductions on Schedule E for non-qualifying expenditures. The most common Schedule E issues involve:

- Rental income and expenses not being properly reported.
- Rental depreciation not being correctly calculated.
- Limitations surrounding passive activities, basis and at-risk rules not properly considered or calculated

For more information on issues related to Schedule E, please visit [www.irs.gov](http://www.irs.gov).